

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AGR-05 EB-07 L-02 COME-00 TRSE-00 XMB-02

CIEP-01 RSC-01 /029 W

----- 032336

P R 050704Z FEB 75

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 4158

INFO AMEMBASSY MANILA

AMEMBASSY BANGKOK

AMEMBASSY SEOUL

C O N F I D E N T I A L TAIPEI 0637

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: COTTON CONTRACT PROBLEM

STATE PASS HUME AGRICULTURE

REF: STATE 023538

1. IN SERIES OF MEETINGS AND TELEPHONE CONVERSATIONS OVER PAST XTHREE DAYS WITH BOFT AND MINISTER ECONOMIC AFFAIRS Y.S. SUN WE HAVE REACHED GENERAL UNDERSTANDING WITH GROC ON PROPOSALS FOR CCC FINANCING WHICH, IF ACCEPTED IN WASHINGTON, SHOULD PROVIDE SATISFACTORY RESOLUTION OF DIFFICULT COTTON CONTRACT PROBLEM.

2. GROC WILL FORMALLY REQUEST \$50 MILLION LINE OF CCC CREDIT. THIS REQUEST BASED UPON PREMISE THAT USG AND GROC WILL SHARE EQUALLY THE FINANCING OF CONTRACTS FOR U.S. COTTON WHICH WERE IN FORCE ON AUG.1, 1974 IN A TOTAL AMOUNT OF APPROXIMATE)6 \$100 MILLION.

3. DURING DISCUSSIONS, Y.T. WANG (WANG I-TING) STATED THAT IF REQUESTED CCC CREDIT LINE APPROVED MILLS WILL BE FORCED BY THE GROC TO HONOR OUTSTANDING CONTRACTS OR DECLARE BANKRUPTCY. WANG FURTHER STATED
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THAT HE BELIEVES 95 PERCENT OR MORE OF OUTSTANDING

CONTRACTS WOULD BE HONORED UNDER THESE CIRCUMSTANCES.
HE SAID THAT BOFT WILL NOT PERMIT MISLIS WITH OUTSTANDING
CONTRACTS FOR U.S. COTTON TO PURCHASE COTTON UNDER NEW
CONTRACTS FROM ANYB ORIGIN UNTIL OUTSTANDING U.S. CONTRACTS
COMPLETELY FULFILLED.

4. WE WERE ASSURED THAT THE FORMAL REQUEST FOR FINANCING
WOULD PROVIDE GROC ASSURANCE ON THE FOLLOWING POINTS:

- A. CCC CREDIT WILL BE USED EXCLUSIVELY TO FINANCE
U.S. COTTON CONTRACTS IN FORCE ON AUG 1, 1974.
- B. THE ROC WILL PROVIDE FINANCING FOR THE ABOVE
CONTRACTED U.S. COTTON FROM ITS OWN XRESOURCES IN AN AMOUNT
EQUAL TO OR GREATER THAN CCC FINANCING GRANTED.
- C. THE ROC WILL TAKE ALL NECESSARWY MEASURES TO
ENSURE THAT TEXTILE MILLS PROMPTLY OPEN L/C'S FOR THE
ABOVE CONTRACTED U.S. COTTON IN ACCORDANCE WITH TERMS
OF SUCH CKONTRACTS.
- D. THE GROC KASSUMES FULL LIABILITY FOR
REPAYMENT OF ALL PRINCIPAL AND INTEREST DUE UNDER
GRANTED CCC CREDITS.

5. WE BELIEVE ABOVE APPROACH PROVIDES WORKABLE
SOLUTION TO COTTON CONTRACT PROBLEM IN TAIWWAN EVEN
THOUGH IT IS VARIATION FROM EARLIER PROPOSAL TO USE
CCC FINANCING ONLY FOR THAT PROTIONNOF CONTRACTED
PRICE BABOVE 40 CENTS PER POUND. INCREMENTAL FINANCIANG
APPROACH PROPOSED DURING YEUTTER-HUME DISCUSSIONS WITH
WANG FOUND JUNACCEPTABLE FOR LEGAL AND TECHNICAL EREASONS
DURING LATER CONSIDERATION BY FINANCIAL AUTHORITIES.

6. GROC MAKING URGENT EFFORT PROVIDE ABOVE DESCRIBED
FORMAL REQUEST CCC FINANCING BY CABLE TO THEIR EMBASSY
IN WASHINGTON BEFORE END OF WEEK. PROPOSAL ALREADY
CLEARED WITH ALL MINISTRIES INVOLVED AND PREMIER'S FINAL
APPROVAL EXPECTED LATER TODAY (FEB 5). CABLE NOW
BEING PREPARED BY BOFT KIN ANTICIPATION PREMIER'S
APPROVAL AND BOFT EXPECTS CABLE CAN BE CLEARED WITH
MINISTRIES ECONOMIC AFFAIRS, FINANCE AND FOREIGN AFFAIRS
WITHIN TWO DAYS.

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7. COMMENT: WE BELIEVE THAT THE STRONG ASSURANCES
WHICH THE GROC IS PROVIDING WITH RESPECT TO THE USE OF
CCC CREDIT LINE AND GUARANTEE OF REPAYMENT PROVIDES
A UNIQUE OPPORTUNITY FOR A SWIFT RESOLUTION OF THE
COTTON CONTRACT PROBLEM IN TAIWAN. WE URGE THAT IKTS
REQUEST FOR CCC FINANCING BE MET TO THE MAXIMUM EXTENT
POSSIBLE. UNGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, CREDIT, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: WorrelSW
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TAIPEI00637
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750041-0797
From: TAIPEI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750268/aaaacjue.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 023538
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUL 2003 by ShawDG>; APPROVED <18 NOV 2003 by WorrelSW>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COTTON CONTRACT PROBLEM STATE PASS HUME AGRICULTURE
TAGS: ETRD, TW
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006